

# GRANADA

November 11, 2008

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for the Performing Arts*

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Peter Frisch

David Gustafson  
Assistant Community Development Director / H&R Manager  
City of Santa Barbara Redevelopment Agency  
Community Development Department  
PO Box 1990  
Santa Barbara, CA 93102-1990

Re: Subordination of Payments Under the Grant Documents

Dear Dave:

The Santa Barbara Center for the Performing Arts, Inc. (the "Borrower") requests that the Redevelopment Agency of the City of Santa Barbara, California (the "Agency") subordinate any and all payments which the Agency is entitled to receive under the Subordinate Grant Documents (defined below) to the Borrower's obligations to the California Infrastructure and Economic Development Bank ("CIEDB") and Bank of America, N.A. (the "Bank") to be incurred in connection with the California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (Santa Barbara Center for the Performing Arts) Series 2008 (the "Bonds") to be issued by the CIEDB on behalf of the Borrower.

Presently, the Borrower and the Bank are parties to a Senior Loan (the "Senior Loan") in a principal amount of \$26,000,000 as evidenced by, among other things, a Construction Loan Agreement and a Pledge Facility Loan Agreement (collectively, the "Loan Agreements") and a Promissory Note and a Promissory Note for Pledge Facility (collectively, the "Promissory Notes"). The Loan Agreements and Promissory Notes are secured by, among other things, a Construction Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (the "Senior Deed of Trust" and, together with the Loan Agreements and the Promissory Notes, the "Senior Loan Documents"). In addition, the Borrower is party to a Grant Agreement dated August 29, 2006 with the Agency (the "Subordinate Grant Agreement") as secured by among other things, a Short Form Deed of Trust and Assignment of Rents dated August 29, 2006 (the "Subordinate Deed of Trust"). The obligations of the Borrower under the Subordinate Grant Agreement, the Subordinate Grant Deed of Trust and all other documents evidencing or securing the Subordinate Grant (collectively, the "Subordinate Grant Documents") have been subordinated to the Borrower's obligations under the Senior Loan Documents pursuant to the Subordination Agreement dated June 11, 2007, by and among the Borrower, the Agency and the Bank (the "2007 Subordination Agreement").

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In connection with the issuance of the Bonds, the Borrower's obligations under the Loan Agreements to the Bank will be repaid and replaced with the obligations represented by the Bonds. The Borrower will enter into a loan agreement dated as of December 1, 2008 with the CIEDB (the "Series 2008 Loan Agreement"), which will secure payment of the Bonds. Payment of principal and purchase price of and interest on the Bonds will be supported by an irrevocable, direct-pay letter of credit (the "Letter of Credit") to be issued by the Bank, under a Reimbursement Agreement, dated as of December 1, 2008, by and between the Borrower and the Bank. The Borrower's obligations to the Bank will be secured by a Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing (together with such other documents required by the Bank in accordance with the terms of the Reimbursement Agreement). The Bonds are expected to be issued in December, 2008. Subsequent to the issuance of the Bonds, the Borrower's loan obligation may be as much as \$30,000,000, which amount is \$4,000,000 greater than the amount of obligations presently set forth in the Senior Loan Documents. Otherwise, the draft 2008 Subordinate Agreement to be used in connection with the issuance of the Bonds is substantially similar to the terms of the 2007 Subordination Agreement. The subordination provided for in the 2008 Subordinate Agreement is intended to permit the Borrower to obtain a higher credit rating on the Bonds secured by the Letter of Credit.

Attached for your approval is the form of the 2008 Subordination Agreement and for your information are the forms of the 2008 Indenture and Series 2008 Loan Agreement. We welcome your review and comments to the 2008 Subordination Agreement. We are scheduled to price and close the bond issue in December 2008, and are hopeful to obtain approval by your Board as early as possible to accommodate this schedule.

Thank you for your prompt attention to this matter. Please do not hesitate to contact me should you have any questions or concerns.

Santa Barbara Center for the Performing Arts, Inc.

By: 

Peter Frisch, Executive Director

Attachments

